



PETROLEUM STORAGE TANK INSURANCE FUND
(A Component Unit of the State of Missouri)

Financial Statements

June 30, 2005

(With Independent Auditors' Report Thereon)

PETROLEUM STORAGE TANK INSURANCE FUND
(A Component Unit of the State of Missouri)

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Independent Auditors' Report

Members

Petroleum Storage Tank Insurance Fund:

We have audited the accompanying financial statements of the Petroleum Storage Tank Insurance Fund (the PSTIF), a component unit of the State of Missouri, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the PSTIF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PSTIF's internal control over financial reporting. Accordingly, we express no opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the PSTIF and do not purport to, and do not present fairly, the financial position of the State of Missouri as of June 30, 2005, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the PSTIF as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The PSTIF has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

KPMG LLP

Kansas City, Missouri
September 30, 2005

PETROLEUM STORAGE TANK INSURANCE FUND

(A Component Unit of the State of Missouri)

Statement of Net Assets (Accumulated Deficit)

June 30, 2005

(in thousands)

Assets

Current assets:

Cash and cash equivalents

\$ 57,212

Accounts receivable

4,029

Interest receivable

320

Total current assets

61,561

Noncurrent assets:

Equipment

210

Less accumulated depreciation

(180)

Total noncurrent assets

30

Total assets

61,591

Liabilities

Current liabilities:

Accounts payable

5

Deferred revenue

555

Claims liability

20,000

Compensated absences

70

Total current liabilities

20,630

Noncurrent liabilities:

Claims liability

101,054

Total liabilities

121,684

Net Assets (Accumulated Deficit)

Unrestricted net assets (accumulated deficit)

\$ (60,093)

See accompanying notes to financial statements.

PETROLEUM STORAGE TANK INSURANCE FUND

(A Component Unit of the State of Missouri)

Statement of Revenues, Expenses, and Changes in Net Assets (Accumulated Deficit)

Year ended June 30, 2005

(in thousands)

Operating revenues:	
Licenses, fees, and permits	\$ 25,569
Cost reimbursements and miscellaneous	3
Total operating revenues	<u>25,572</u>
Operating expenses:	
Personal service	1,485
Operations	3,407
Specific programs	20,774
Depreciation	22
Other charges	78
Total operating expenses	<u>25,766</u>
Operating loss	<u>(194)</u>
Nonoperating revenue—investment earnings	<u>1,321</u>
Income before transfers	<u>1,127</u>
Transfers out	<u>164</u>
Change in net assets	<u>963</u>
Total net assets (accumulated deficit), beginning of year	<u>(61,056)</u>
Total net assets (accumulated deficit), end of year	<u><u>\$ (60,093)</u></u>

See accompanying notes to financial statements.

PETROLEUM STORAGE TANK INSURANCE FUND
(A Component Unit of the State of Missouri)

Statement of Cash Flows

Year ended June 30, 2005

(in thousands)

Cash flows from operating activities:	
Receipts from customers and users	\$ 25,034
Payment to employees	(1,519)
Payment to vendors	(3,490)
Claims payments	(13,386)
Net cash provided by operating activities	<u>6,639</u>
Cash flows used in noncapital financing activities—payments to other funds	<u>(164)</u>
Cash flows provided by investing activities—interest on cash and investments	<u>1,138</u>
Net increase in cash and cash equivalents	7,613
Cash and cash equivalents—beginning of year	<u>49,599</u>
Cash and cash equivalents—end of year	\$ <u><u>57,212</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating income	\$ <u>(194)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation of building and equipment	22
Loss on disposal of buildings and equipment	18
Increase in accounts receivable	(521)
Decrease in accounts payable	(33)
Decrease in deferred revenue	(7)
Decrease in compensated absences	(34)
Increase in claims payable	<u>7,388</u>
Total adjustments	<u>6,833</u>
Net cash provided by operating activities	\$ <u><u>6,639</u></u>

See accompanying notes to financial statements.

PETROLEUM STORAGE TANK INSURANCE FUND
(A Component Unit of the State of Missouri)

Notes to Financial Statements

June 30, 2005

(1) Financial Reporting Entity and Summary of Significant Accounting Policies

(a) *Financial Reporting Entity*

The Petroleum Storage Tank Insurance Fund (the PSTIF), created by Section 319.129 RsMO in 1989, is an independent, self-supporting, quasi-governmental entity governed by an 11-member board of trustees. State law indicates that the PSTIF will expire on December 31, 2010 with the exception of completing payment of claims made prior to that date. The purpose of the PSTIF is to provide insurance coverage for storage tank owners for the expenses of cleaning up a leak, as well as third-party property damage or bodily injury resulting from leaks. The law requires the owner/operator to comply with certain Department of Natural Resources' (DNR) operating requirements in order to be insured. In addition, the PSTIF pays for the expenses to clean up the sites where petroleum storage tanks have been closed if they meet certain criteria.

The PSTIF is a blended component unit of the State of Missouri (the State) as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. Based on GASB Statement 14, the accompanying financial statements include only those operations related to the PSTIF and are not intended to present fairly the financial position and results of operations of the State.

These financial statements include those transactions under the operational control of the PSTIF's board of trustees, as well as transactions under the control of other state agencies that have been assigned or allocated to the PSTIF.

(b) *Basis of Presentation*

The PSTIF accounts for its activities as an enterprise fund, a type of proprietary fund. Proprietary funds are used to account for ongoing activities that are similar to activities found in the private sector. The measurement focus is upon determination of net income.

Specifically, enterprise funds account for operations that provide a service to citizens that are financed primarily by a user charge for the provision of that service. Enterprise funds also account for activities where the periodic measurement of net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

(c) *Method of Accounting*

The accrual basis of accounting is utilized for the PSTIF. With this measurement focus, revenues are recognized when earned and expenses are recorded when incurred.

The PSTIF recognizes revenue on transport load fees based on when the fee was incurred by the transporter. Participation fees are earned based on the period in which the owner/operator is being insured.

The PSTIF recognizes claims reserve liabilities and the related expenses when the PSTIF becomes aware of contamination at a storage tank site and estimates the costs to clean up the contamination.

PETROLEUM STORAGE TANK INSURANCE FUND
(A Component Unit of the State of Missouri)

Notes to Financial Statements

June 30, 2005

The PSTIF applies all Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989 and all Accounting Principles Board (APB) Opinions and Accounting Research Bulletins, except for those that conflict with or contradict GASB pronouncements.

(d) Employee Fringe Benefits

State employees, including those employed by or paid from the PSTIF, are covered by the Missouri State Employees' Retirement System (MOSERS) (a noncontributory plan) and may participate in the State's healthcare, option life insurance, deferred compensation, and cafeteria plans. The optional life insurance and cafeteria plans involve only employee contributions or payroll deductions. Also, the deferred compensation plan involves employee deferrals and a monthly State matching contribution for each participating employee.

The State's required contributions for employee fringe benefits are paid from the same funds as the related payroll. Those contributions are for MOSERS (retirement, basic life insurance, and long-term disability benefits), social security and Medicare taxes, healthcare premiums, and the deferred compensation plan match.

(e) Compensated Absences

State employees, including those employed by or paid by the PSTIF, are granted vacation, sick, and compensatory leave in varying amounts. In the event of termination, an employee is paid for accumulated vacation and compensatory hours. Employees are not paid for accumulated sick leave upon termination. The amounts of accrued vacation and compensatory hours are included in accrued liabilities as a current liability in the accompanying statements of net assets. The costs of sick leave are recorded when paid and are not accrued.

(f) Fees

The PSTIF receives the following fee revenues:

Transport load fee—Fee upon each load of petroleum brought into the State. This fee is currently \$40 per 8,000 gallons of petroleum.

Tank fee—One-time fee of \$100 paid by the tank owners and operators for participation in the PSTIF.

Participation fee—A fee paid by the tank owners and operators who apply for and receive insurance coverage from the PSTIF. The fee is assessed on each tank insured annually. This fee currently ranges from \$100 to \$200 per tank insured.

(g) Cash and Cash Equivalents

Cash and cash equivalents for the statement of cash flows includes cash and short-term investments, which are invested by the State as part of the State's cash pool. All deposit and investment risk is controlled by the State. Information concerning the State's deposit and investment risks may be found in the State's 2005 Comprehensive Annual Financial Report.

PETROLEUM STORAGE TANK INSURANCE FUND
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Notes to Financial Statements

June 30, 2005

(h) Classification of Operating and Nonoperating Revenue

The PSTIF has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues—Operating revenues include activities that have the characteristics of exchange transactions, such as charges for program participation. Also included in operating revenues are transport load fees, which the State has identified as the primary source of program funding.

Nonoperating revenues—Nonoperating revenues include interest on deposits and investments.

(i) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

(2) Claims Liability

The PSTIF has claims liability for the cost of contamination cleanup for policyholders and other eligible site owners who have submitted notice of a contamination. The PSTIF's reconciliation of its beginning and ending claims liabilities is summarized as follows for 2005 and 2004 (in thousands):

	<u>2005</u>	<u>2004</u>
Liability as of beginning of year	\$ 113,666	119,990
Claims payments	(13,386)	(13,742)
Claims incurred and changes in estimates	<u>20,774</u>	<u>7,418</u>
Liability as of end of year	\$ <u>121,054</u>	<u>113,666</u>